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NABE Industry Survey

July, 1989

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-June, 1989 and is being reported in July 1989. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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Current Highlights

* Unit demand growth slowed sharply in the second quarter. Goods-producing industries reported the most pronounced easing.

* Real Capital Spending growth slowed a bit, but remained a powerful source of growth for the economy. Exports are a second source. More than half of the firms that export report rising foreign sales.

* Employment growth also decelerated at members' firms.

* Satisfaction with current inventory levels remains high. In spite of slowing demand growth inventories do not seem to be a serious source of instability.

* Inflationary pressures show early signs of easing. Both prices charged and costs decelerated during Q2.

* This year's rising dollar has not cut into our members' international competitiveness in any meaningful way.

* Our survey panel believes that "Europe 1992" is mostly a positive development. Their firms are preparing for it in a variety of ways.

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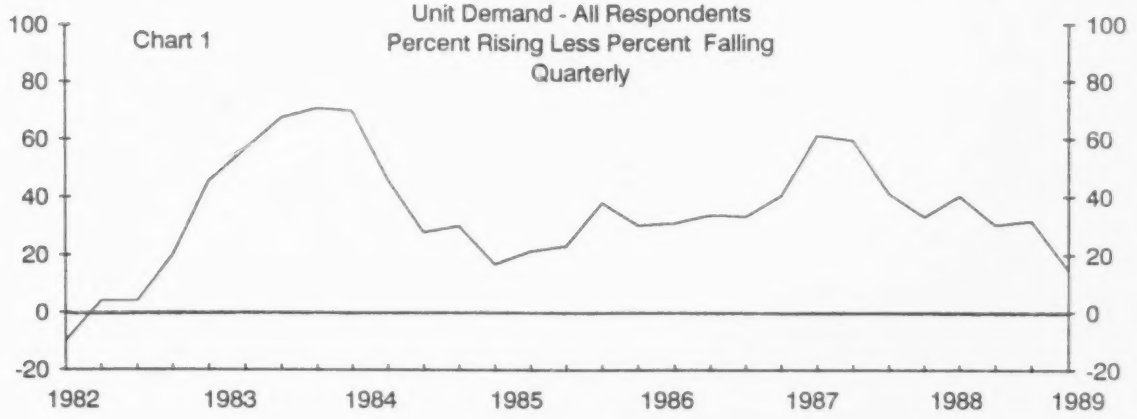
Unit Demand

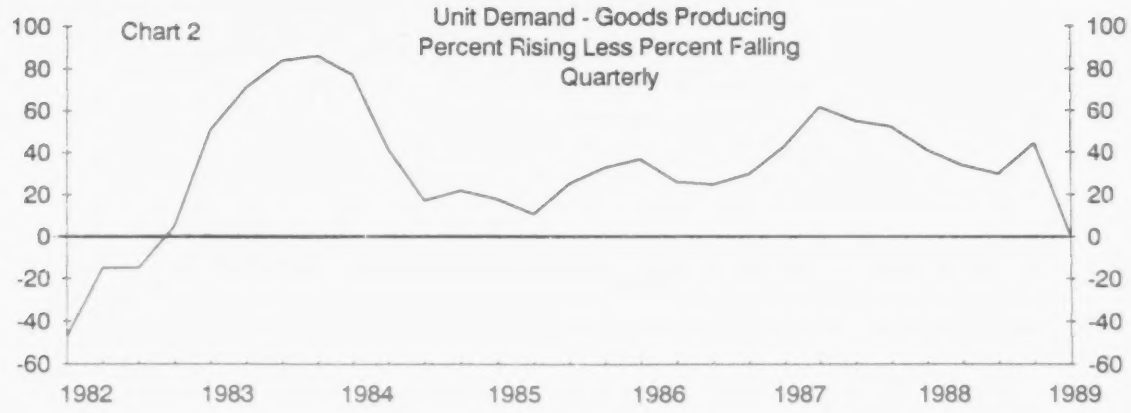
Demand continued to rise in the second quarter, but there was a sharp deceleration compared with the previous period, and there were significant differences among the sectors. Of all respondents, 41.0% reported rising unit demand, down from 50.0% last time. Demand fell at 26.2% of our panelist's firms, up from 18.3% in Q1. The Net Rising Index (percent rising minus percent falling) fell sharply to 14.8% from 31.7%. Chart 1 reveals that this net rising measure has resumed its downward trend. It is currently at its lowest level since late 1982.

Goods producing industries (manufacturing, mining, forestry and construction) suffered the most pronounced slowing of demand growth among the major sectors. See Chart 2. More than one-third of the respondents in this sector reported falling unit demand, the same percentage that reported rising demand. The Net Rising Index fell to zero from 44.2% in Q1. There was also a major decline in the rate of growth within the transportation, utilities and communications sector where the Net Rising Index fell to 21.4% from 46.4%. Demand growth accelerated during the period in both Retail/Wholesale Trade and Financial Services.

	Percent of Total Sample Reporting that Demand is:			Net
Survey Month	Rising	Staying the Same	Falling	Rising
Jun. '89	41.0%	32.8%	26.2%	14.8%
Mar. '89	50.0	31.7	18.3	31.7
Dec. '88	47.2	35.9	16.9	30.3

	Percent Reporting that Demand is:			Net
Sector	Rising	Staying the Same	Falling	Rising
Total	41.0%	32.8%	26.2%	14.8%
Goods-Producing	36.4	27.3	36.4	-0-
Trade	40.0	60.0	-0-	40.0
TUC	46.4	28.6	25.0	21.4
Financial Serv.	40.6	37.5	21.9	18.8

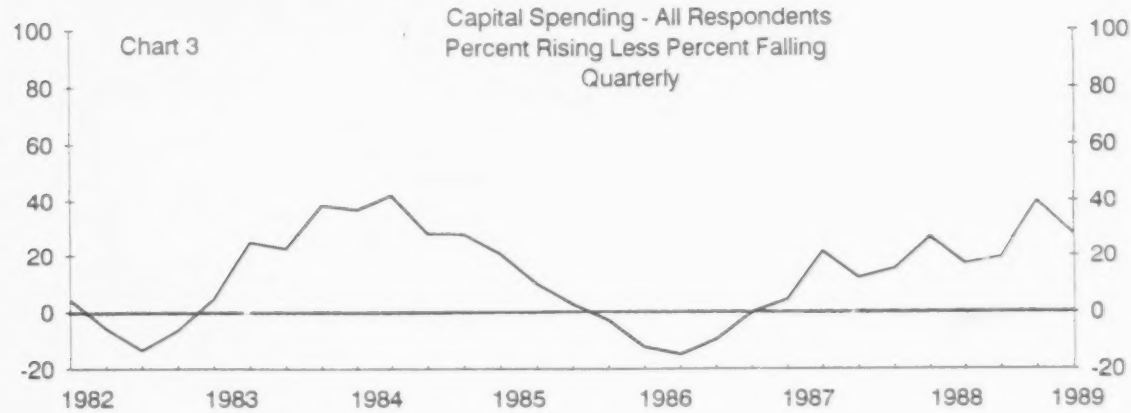




Capital Spending

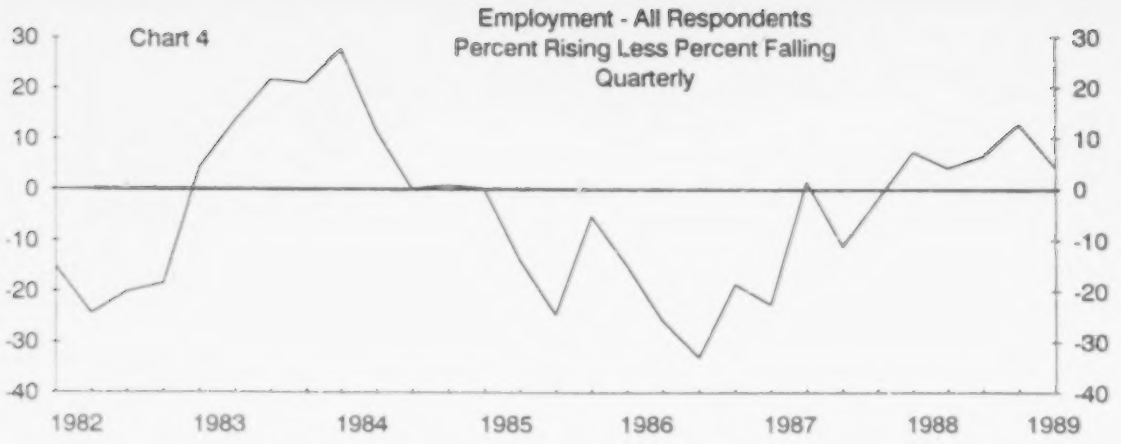
Our panelists' firms maintained a pattern of strong capital spending growth during the past three months. More than one-third of all respondents reported increased expenditures while only 7% said spending was down. While the Net Rising Index was off last quarter's near record pace, it remained at the second highest level in the last four years. See Chart 3.

Survey Month	Percent Reporting that Real Capital Spending is: Rising	Staying the Same	Falling	Net Rising
Jun. '89	34.9%	57.8%	7.3%	27.5%
Mar. '89	47.8	44.2	8.0	39.8
Dec. '88	34.6	50.0	15.4	19.2



Employment

Employment kept rising during the second quarter, although at a significantly slower rate according to our members. While most companies (58.8%) are still reporting stable employment levels, 18.5% said that employment was on the increase. The Net Rising Index (percent rising minus percent falling) dropped to just over 4%. See Chart 4.



Inventories

Satisfaction with current inventory levels remained high in the latest survey. Of all our respondents 56.7% said that stock levels were "about right". This compares with 55.6% in the previous survey. The other 43.3% who were not happy with current levels split as follows. One-third of the sample said stocks were too high while 10% said they were too low. Chart 5 shows that goods producers continued in a slight inventory build position during the past quarter as the Net Rising Index remained at +5%. Overall, inventory policies and stock levels themselves remain quite stable.

Export Performance

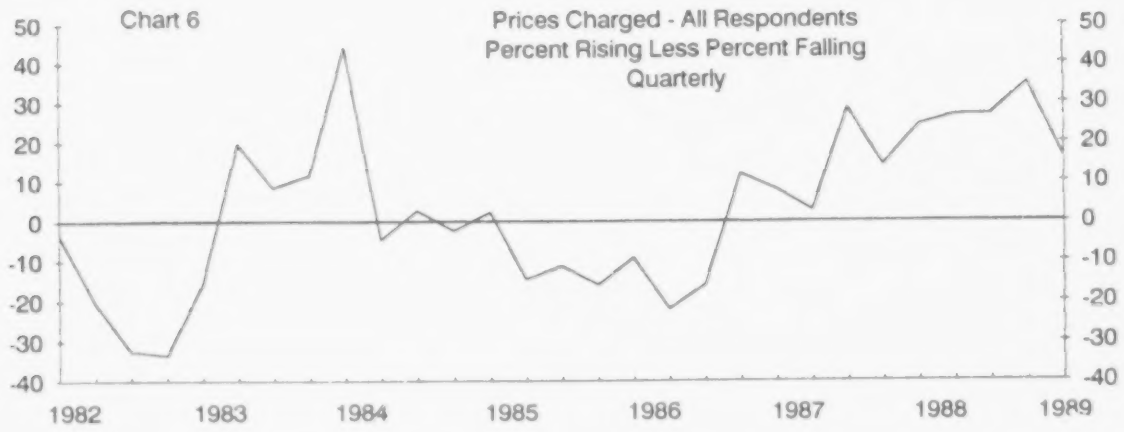
Export growth eased again during the last 3 months but remained a clear source of economic strength. More than one-half of responding members reported rising exports, and almost half of this group say that foreign sales are accelerating.

Survey Month	Percentage of Exporters Whose Exports are: Rising	Staying the Same	Falling	Net Rising
Jun. '89	52.1%	33.3%	14.6%	37.5%
Mar. '89	62.0	30.0	8.0	54.0
Dec. '88	64.2	34.0	1.9	62.3

Prices and Costs

Prices charged by our respondents' companies continued to rise in the second quarter, but at a much slower pace. The net rising percent fell by more than half to 16.2%, its lowest level in over a year. While one quarter doesn't constitute a trend, the latest reading is a welcome sign that inflationary pressures may be easing. See Chart 6.

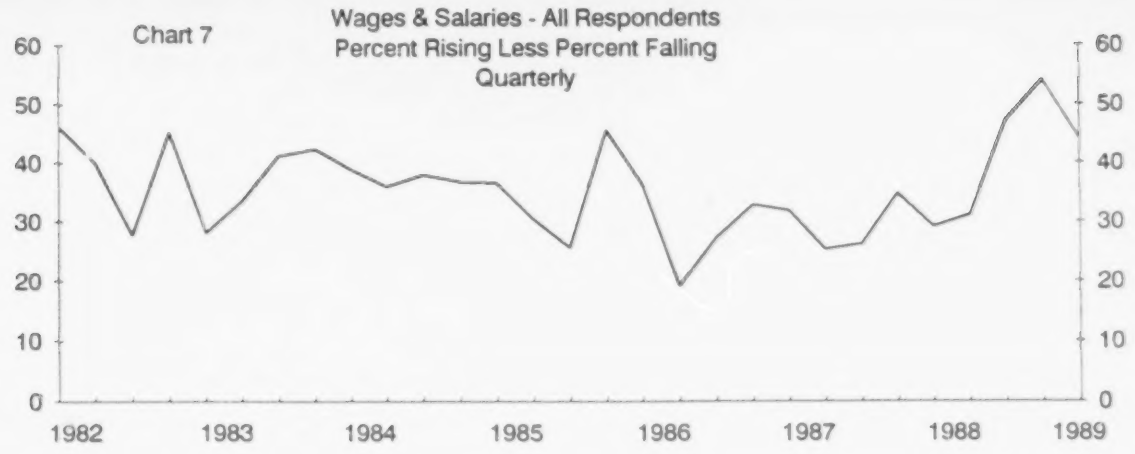
Survey Month	Percentage Reporting Their Prices are: Increasing	Unchanged	Falling	Net Rising
Jun. '89	31.6%	53.0%	15.4%	16.2%
Mar. '89	46.0	42.9	11.1	34.9
Dec. '88	36.9	53.2	9.9	27.0



Costs also showed signs of decelerating during the past three months. While 60% of our survey sample reported rising prices of input materials, this was down from over 70% last quarter. The Net Rising Index fell more than 18 points. Wages and salaries too rose a bit less aggressively during Q2. The Net Rising Index fell 10 points to 44.1% See Chart 7.

Survey Month	Percent Reporting that Material Costs are: Rising	Unchanged	Falling	Net Rising
Jun. '89	60.0%	30.6%	9.4%	50.6%
Mar. '89	71.3	26.4	2.3	69.0
Dec. '88	64.9	29.9	5.2	59.7

Survey Month	Percent Reporting Wages & Salaries: Rising	Unchanged	Falling	Net Rising
Jun. '89	44.9%	54.2%	0.8%	44.1%
Mar. '89	55.7	42.6	1.6	54.1
Dec. '88	48.6	50.0	1.4	47.2



Shortages

Another sign of an easing economy -- 60% of respondents reported no shortages of factor inputs last period. This was the highest "no shortage" reading in over a year. Skilled labor continues to be the most often mentioned problem.

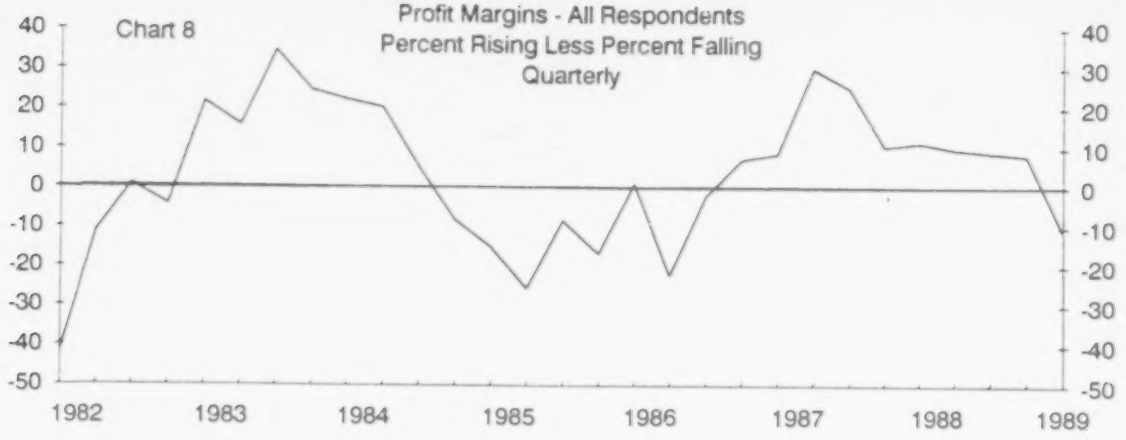
	Percent Reporting Shortages in Survey Month:			
Type of input	Sept.	Dec.	Mar.	Jun.
Skilled Labor	32.6%	28.4%	31.0%	27.1%
Unskilled Labor	11.6	12.1	9.7	13.1
Intermediate Inputs	10.5	13.8	12.4	10.3
Raw Material Inputs	10.5	8.6	9.7	5.6
Capital Goods	5.8	4.3	2.7	4.7
No Shortages	48.8	50.9	52.2	59.8

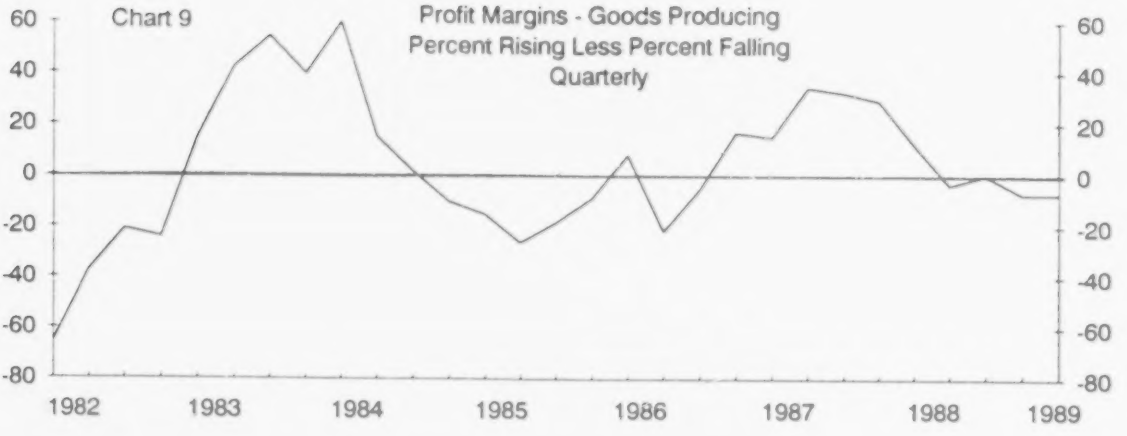
Profits

Profit margins tumbled during the past 3 months as more firms reported margins falling than rising for the first time in ten quarters. See Chart 8. The predominance of falling profitability was also more widespread. Whereas only the goods producing sector displayed a negative Net Rising Index last quarter, this time this key measure was zero or negative across all industry sectors.

	Percent of all Respondents Reporting that Margins are:			
Survey Month	Rising	Unchanged	Falling	Net Rising
Jun. '89	23.1%	42.7%	34.2%	-11.1%
Mar. '89	31.1	45.9	23.0	8.2
Dec. '88	34.3	40.1	25.5	8.8

	Percent Reporting that Profit Margins are:			Net
Sector	Rising	Unchanged	Falling	Rising
Total	23.1%	42.7%	34.2%	-11.1%
Goods-Producing	22.0	48.8	29.3	-7.3
Trade	40.0	20.0	40.0	-0-
TUC	25.0	39.3	35.7	-10.7
Financial Serv.	16.1	38.7	45.2	-29.0





Special Questions

Competitiveness: This year's rise in the dollar's value has had very little impact on our members' firms ability to compete in global markets. Of all respondents 40% said that the dollar's rise has had "little noticeable impact" on their ability to compete. Another 20% said that while the upward valuation has had some effect, their firms are still competitive. Only 7% reported that the rising dollar had either reduced their ability to export or had increased foreign competition at home. Almost 34% said that their firm doesn't face international competition at home or abroad.

Goods producers are much less immune to foreign competition. Less than 5% said they face no international competition vs 34% for the total sample. Still, only 12% of the respondents from this sector reported any real impact from the higher dollar. Nearly half said it had no impact, and 36% reported a minimal impact on their ability to compete.

"Europe 1992": The question we asked was, "From your firm's perspective, is 'Europe 1992' a positive or negative element in the future global business environment?" The resounding answer was mostly positive and definitely not negative. Responses by sector are tabulated below. A large number, mostly public utilities and financial service firms said that "European markets are irrelevant to my firm." In the goods-producing sector the majority was high on the concept.

"Europe 1992" - A Positive or Negative Development?

Sector	Mostly Positive	Mostly Negative	Both Pos. & Neg.	Europe Irrelevant
Total	39.7%	3.3%	24.0%	33.1%
Goods-Producing	52.3	2.3	36.4	9.1
Trade	60.0	-0-	40.0	-0-
TUC	11.1	3.7	14.8	70.4
Financial Serv.	40.6	6.3	21.9	31.3

Panelists from those firms for which European markets are relevant were then asked what steps if any their companies were taking to prepare for "Europe 1992". Multiple answers were permitted. Nearly one-quarter of the respondents' firms are entering the European market via merger, acquisition, joint venture or new investment. A similar number are adding to existing capacity in Europe. Three other, nearly equally popular answers included beefing up marketing and R&D resources in Europe; enhancing the scope of product offerings; reducing costs to enhance competitiveness. Seventeen percent of respondents felt that their firms were already well positioned in Europe and an equal number said that they don't believe "Europe 1992" will significantly alter market conditions.

"Super 301" Targeting: Asked whether they agreed or disagreed with the recent decision to target Brazil, India and Japan under the "Super 301" provisions of the new trade act, those panelists expressing opinions split -- 55% agreeing and 45% disagreeing. Then, asked whether successful negotiations with these countries would have a significant impact on the U.S. Trade deficit, one-third believed it would make a difference; two-thirds believed it would not. Sixty-nine percent of those respondents who expressed an opinion believed that these countries would be equally justified in targeting the U.S. for unfair trade practices.

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